Report to Shareholders

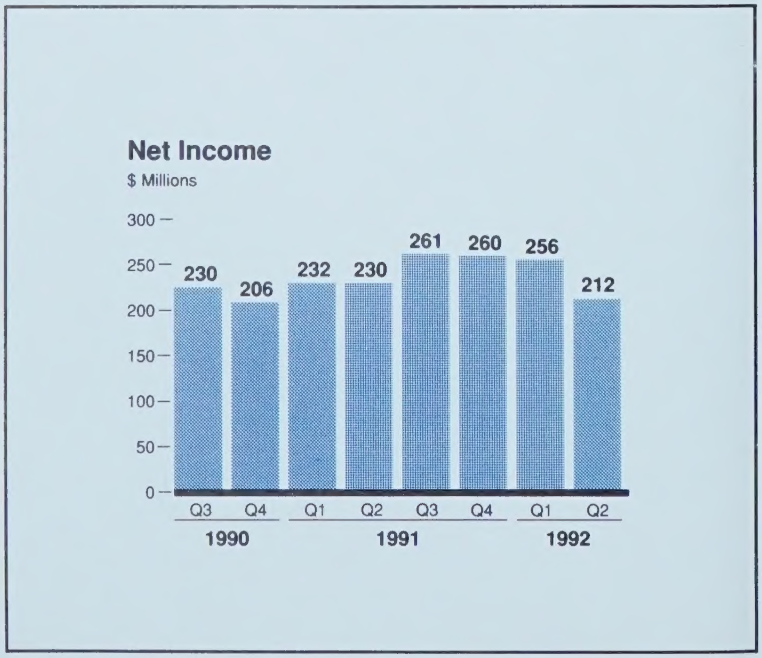
ROYAL BANK
OF CANADA

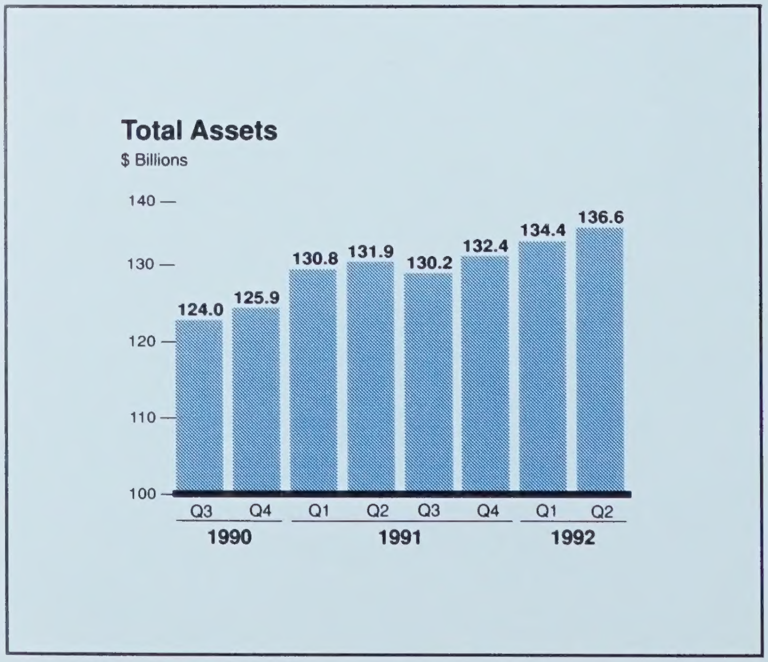
SECOND QUARTER
1992

FINANCIAL HIGHLIGHTS

(in millions of dollars, except per share amounts)

	1992	1991	Increase (Decrease) Amount	%
Second quarter ended April 30				
Net income	$ 212	$ 230	$ (18)	(8)%
Earnings per share	.59	.69	(.10)	(14)
Dividends per share	.29	.29	—	—
Return on assets	.64%	.72%	(.08)%	—
Return on common shareholders' equity	11.6%	15.1%	(3.5)%	—
Six months ended April 30				
Net income	$ 468	$ 462	$ 6	1%
Earnings per share	1.32	1.39	(.07)	(5)
Dividends per share	.58	.58	—	—
Return on assets	.70%	.72%	(.02)%	—
Return on common shareholders' equity	13.1%	15.2%	(2.1)%	—
As at April 30				
Total assets	$136,631	$131,906	$4,725	4%
Loans	99,390	95,355	4,035	4
Deposits	109,040	104,496	4,544	4
Common shareholders' equity	6,423	5,733	690	12
Book value per share	20.72	18.93	1.79	9
Share price	23.75	26.13	(2.38)	(9)
Capital ratios – Tier I	6.3%	5.2%	1.1%	—
Tier II	3.2%	3.1%	.1%	—
Total	9.5%	8.3%	1.2%	—





OPERATING HIGHLIGHTS

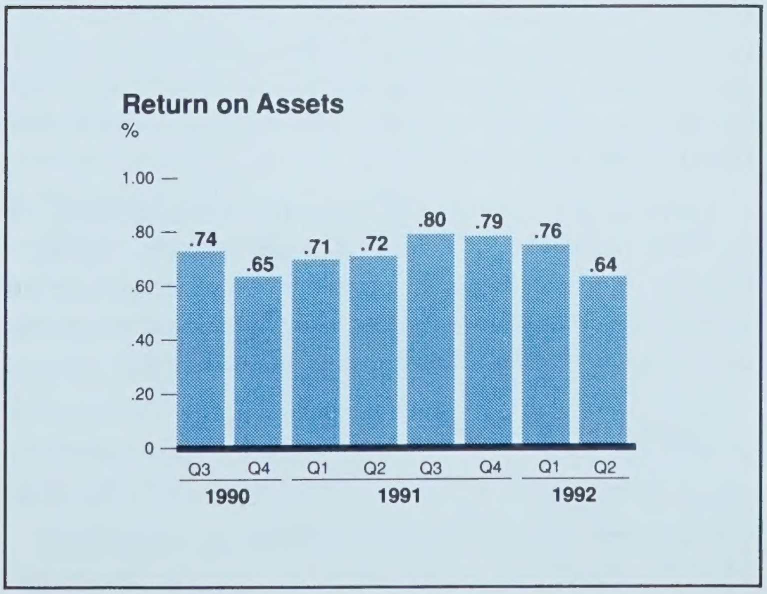
- Royal Bank has announced plans to launch a wholly-owned trust subsidiary as soon as financial reform legislation comes into effect on June 1, 1992. The new trust subsidiary will offer a wide range of trust, securities custody and administration services to companies and other institutions, as well as professional advice and services to individuals. In 1990, Royal Bank signed an agreement with International Trust Company to acquire its total operations once regulatory approval had been obtained.

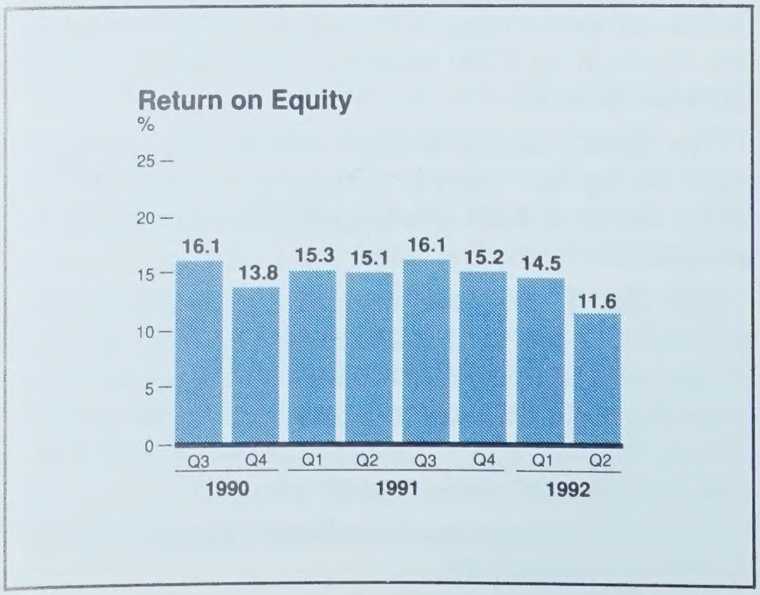
- Reflecting growing competition in the retail market in Puerto Rico, the Bank has decided to sell its retail subsidiary, Royal Bank de Puerto Rico, to Banco Bilbao Vizcaya SA of Spain. The Puerto Rican subsidiary operates 17 branches and has assets of $500 million. To compete effectively, the Bank would have had to make a considerable investment in this market. We will be concentrating on corporate and private banking through the branch we opened in Puerto Rico in 1907, when our headquarters were in Halifax and there was extensive maritime trade between Atlantic Canada and the Caribbean. The sale requires regulatory approval and is expected to be finalized by the end of this year.

- Royal Bank Investment Management Inc. (RBIM) has entered into an agreement with Delaware International Advisers Ltd., a London-based money management firm specializing in international investing, and part of the Delaware Group, the seventh largest independent institutional investment manager in the United States. RBIM has also announced the launch of a new international equity fund, called The EAFE Fund, which will invest in equities from Europe, Australia and the Far East and will be offered to large Canadian pension funds and other institutional clients. RBIM will manage The EAFE Fund, performing all sales and service functions, and Delaware International will provide investment advice to the Fund.

- With an agreement in principle to purchase 100 per cent of United Financial Management Ltd., Royal Bank will now be able to serve two very distinct segments of the growing mutual funds marketplace. Our RoyFund family of mutual funds will serve one market, available primarily through our branches. United will continue to serve investors requiring more specialized funds, together with investment management counselling provided largely by an established network of brokers, dealers, financial planners and advisors. Based in Toronto and a wholly-owned subsidiary of Central Capital Corporation, United has assets of $670 million and manages and markets 12 mutual funds.

- In February 1992, the Bank opened its first full-service "supermarket branch" in Burlington, Ontario. Specially-trained staff provide a full range of transactions, from RSPs and mortgages and loans to foreign exchange and mutual funds, as well as providing financial advice.





CHAIRMAN'S MESSAGE

I am pleased to send you our Newsletter and Interim Report for the second quarter of the 1992 fiscal year which ended on April 30th.

Net income for the quarter was $212 million, down $18 million or eight per cent from the corresponding quarter a year ago. This decline in earnings was due largely to a higher provision for loan losses in the domestic corporate sector.

For the year to date, net income was $468 million, an increase of $6 million over the first six months of the 1991 fiscal year.

In light of continuing weakness in the economy, Royal Bank's performance over the first two quarters of the year has been reasonably encouraging. Return on assets and return on equity were .70 per cent and 13.1 per cent respectively, versus .72 per cent and 15.2 per cent for the first six months of 1991.

In the second quarter, the Bank reversed $300 million of its $600 million surplus country risk provisions in recognition of the significant appreciation of market values for LDC debt, and in view of indications from the Superintendent of Financial Institutions (OSFI) of its intention to remove Mexico from the basket of 45 designated troubled countries by July of this year.

Concurrent with the reversal of surplus country risk provisions, the Bank added $300 million to its domestic specific provisions for loan losses.

This step was taken to address some uncertainty about potential losses in the domestic loan portfolio, particularly with regard to Olympia & York.

In fact, during the second quarter, the Bank classified as non-performing $510 million, or approximately two thirds of its $780 million of outstanding loans to Olympia & York.

The Bank's capital position was further strengthened during the quarter and total capital stood at $11.1 billion at April 30th, up $135 million from the last quarter.

Our Tier 1 and Total capital ratios were 6.3 per cent and 9.5 per cent respectively, up from 6.2 and 9.4 per cent at the end of the first quarter. Under the more liberal definition for capital used in the United States, Tier 1 and Total capital ratios would be 6.8 per cent and 10.3 per cent respectively.

A detailed discussion of the Bank's financial results appears on pages 7-10.

Elsewhere in this report shareholders are provided with some insight into initiatives the Bank is taking to improve both the quality of services we provide and our productivity. Gains on both these fronts will be crucial in our drive to establish a clear competitive edge as Canada's leading provider of financial services.

Our Operating Highlights for the quarter report on several developments which underline our continuing focus on product diversification.

During the quarter the Bank announced plans to create a wholly-owned trust subsidiary — incorporating the business of The International Trust Company — when financial reform legislation becomes effective on June 1, 1992. The subsidiary will offer a wide range of trust, securities custody and administration services.

Royal Bank Investment Management Inc., our investment management subsidiary, entered into an agreement with Delaware International Advisers Limited to launch our first international equities fund. The new EAFE Fund is targeted at pension fund managers who want to capitalize on new federal rules allowing pension funds to increase their foreign holdings from 10 per cent to 20 per cent by 1994.

An agreement in principle to purchase 100 per cent of United Financial Management, one of Canada's largest independent mutual fund companies, was signed shortly after the quarter closed. This acquisition will enable us to serve two very distinct segments of the rapidly growing mutual funds marketplace. United's professional investment counsellors and distribution network for the 12 mutual funds it manages and markets will complement our own highly successful RoyFund family of eight no-load funds marketed through our branch network.

Early in the quarter we announced the opening of our first full-service "supermarket branch" in Burlington, Ontario. This initiative is representative of several developments under way designed to maximize customer convenience and satisfaction.

Allan R. Taylor
Chairman & Chief Executive Officer
May 29, 1992

STRENGTHENING OUR COMPETITIVE EDGE THROUGH QUALITY SERVICE

Quality service is the key to Royal Bank's competitive edge. It is what keeps our customers coming back and what creates value for our shareholders.

While satisfying, the competitive edge we have achieved is not something we can take for granted. It must be aggressively pursued and strengthened by continually improving the quality of service we provide, as well as the levels of productivity we achieve.

Accomplishing this takes a bankwide effort that involves every one of our 57,000 employees. It also requires that we employ the best technology and provide maximum customer convenience through our distribution network.

Over the next decade, product and service distribution is where the competitive battle will be won or lost. We are meeting the challenge with one of the world's largest networks of branches and automated banking machines. Today, we have over 1,600 branches and 3,800 banking machines in Canada and around the world. We also have over 20,000 Point-of-Sale terminals and 7,500 electronic connections through which we provide a variety of cash management services to businesses of all sizes.

Through our electronic networks, we currently process over 5.5 million customer transactions every day. Our customers can conduct business at any branch across the country and have access to funds 7 days a week, 24 hours a day through our self-service network. And, Canada is one of the few countries worldwide where people can access their bank accounts and conduct multiple transactions from virtually anywhere in the country.

Today, expanding and improving our network involves much more than building a new branch. Strategic options considered involve everything from new branch design and merchandising concepts; to the development of electronic and alternative distribution channels; and, the emergence of new delivery and payment systems, such as debit card / Point-of-Sale.

During the second quarter, the Bank opened its first "in-store" branch in a Miracle Ultra-Mart store in Burlington, Ontario. This is a fully-equipped 400-square-foot facility, where a complete range of banking services is provided by sales and service staff and through banking machines. It is a good example of how we are no longer waiting for customers to come to us, instead, in response to growing requirements for convenience, we are taking our services to them — in this case, where our customers do their shopping.

Another delivery system offering growing potential is the telephone. Customers and staff nationwide already benefit from immediate access over the telephone to comprehensive product and pricing information, as well as support for electronic applications. We also effectively deploy telemarketing to sell a wide range of products and services, including credit cards, car loans and various investment products.

Later this year, we will enter a new phase in telephone banking by testing a telephone service that allows customers to perform basic banking transactions, such as balance inquiries, transfers and bill payments. A unique feature will be the option for customers to choose between automated voice and human response service. With the expanding use of portable telephones, we will soon reach the day when customers can literally do their banking anywhere, anytime.

Initiatives like these have largely been made possible by technology. In fact, technology is a powerful engine of change in how we build and strengthen our customer relationships.

A major technological breakthrough over the next few years will be the use of image processing. This involves the electronic capture and storage of information written on cheques, bills and other forms of documentation. Image processing will revolutionize the way documents are processed, retrieved and transferred in response to customer requests. It will allow customers to obtain electronic "pictures" of cheques, bills and other documents at any branch across the country in a matter of seconds. Image processing has the potential to be the 1990s version of what banking machines were for service enhancement in the 1980s.

(continued on page 6)

STRENGTHENING OUR COMPETITIVE EDGE

Because of this, Royal Bank is aggressively co-sponsoring the development of this new technology, and is the leading Canadian financial institution on this front.

Technology also permits the movement of information directly into the hands of our front line staff. Through our network of over 23 thousand PCs and other computer terminals staff can access data instantaneously while serving customers. This improves quality service by ensuring customer needs are met quickly and effectively.

While the role of technology is clearly critical, improving quality and productivity ultimately comes down to people. We make it happen by continuously examining what we do, how we do it and how we can do it better.

Increasingly, we are doing this through process reviews designed to re-engineer and restructure processes to ensure we streamline tasks, eliminate redundant activities and avoid duplication. Drawing on employee input is a vital part of these reviews, as our employees are in the best position to know which processes add value and which do not. Ultimately, process improvements result in a re-direction of staff time in proactively meeting and servicing customer requirements.

In addition to process reviews, we actively solicit staff input in improving quality service and productivity through a variety of award and incentive programs. A good example is the success of our Staff Suggestion Program. Last year, we received over 12,000 suggestions which resulted in a $14 million benefit to the Bank, and over $317,000 awarded to the winners.

In pursuing our goal of total customer satisfaction, listening to our staff is a necessity. But equally as important is going right to the source — our customers. We undertake a number of initiatives aimed at getting customer feedback on the service they receive. These include customer service surveys to help identify gaps that exist between the service provided and what customers expect; the tracking and analysis of customer complaints to determine what went wrong to ensure it is not repeated; and the development of quality benchmarks against which we can track our performance in continuous improvement. Meeting customer demands is simply not enough — we must be prepared to exceed them!

At Royal Bank, quality service and productivity improvement are critical to achieving total customer satisfaction. They are not only the driving forces in all our business decisions, but also represent our greatest challenges. It is only by continuously raising the standards of service quality and productivity that we will strengthen our competitive edge and create value for shareholders, customers and employees.

Improving service quality and productivity is the responsibility of every one of Royal Bank's 57,000 employees. Achieving progress in these areas requires bankwide direction and support. This is a core responsibility of our Operations & Service Delivery group.

In addition, Operations & Service Delivery is responsible for a wide array of initiatives in support of our business thrusts, including: the processing of all customer transactions through a vast network of operations, processing and business payments centres; planning and developing the Bank's branch, electronic and alternative delivery networks in a way that best serves customer needs; implementing new technology across the network and training staff to use it; establishing guidelines and standards to ensure the smooth running of all our operations functions bankwide; and managing the Bank's real estate holdings (excluding investment properties).

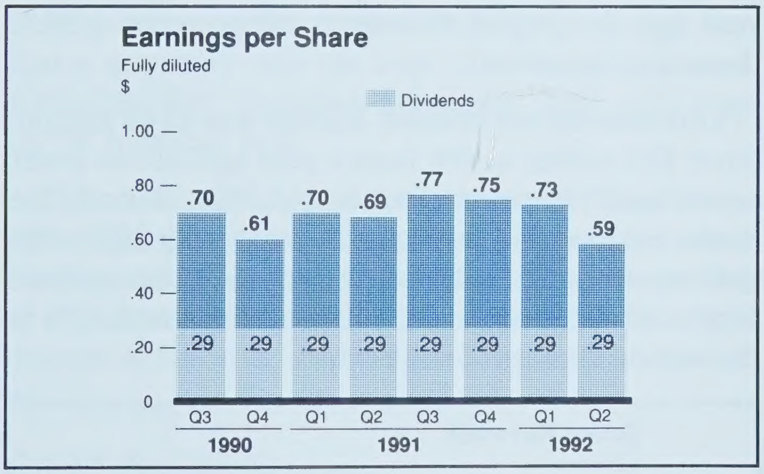
Through these responsibilities, Operations & Service Delivery provides valuable service to the front-line staff who serve our customers. Its leadership role in furthering quality service and productivity improvements as a way of life is critical to pursuing the goal that motivates us all — total customer satisfaction.

FINANCIAL REVIEW

Earnings overview

Royal Bank's net income in the second quarter of 1992 was $212 million, down $18 million or 8% from the second quarter of 1991 due largely to a higher provision for loan losses this quarter. Compared to the first quarter of 1992, net income declined $44 million or 17%, reflecting lower revenues from retail and corporate banking as well as reduced income from treasury operations and RBC Dominion Securities.

Earnings per share were $0.59 versus $0.69 in last year's second quarter. There were 309.5 million average common shares outstanding compared to 302.3 million a year ago.



Return on assets was .64% versus .72% in the second quarter of last year. Return on common shareholders' equity declined to 11.6% from 15.1% a year ago, with much of that reduction due to a larger equity base and higher preferred share dividends resulting from two preferred share issues in the second half of 1991.

For the first six months of 1992, net income was $468 million, an increase of $6 million or 1% from the first half of 1991. Earnings per share were $1.32 compared to $1.39 last year. Return on assets and return on equity were .70% and 13.1%, respectively, versus .72% and 15.2% in the first six months of 1991.

In the second quarter, Royal Bank reversed $300 million of its country risk provision in recognition of the significant appreciation of market values for LDC debt and the imminent removal of Mexico from the Superintendent of Financial Institution's list of designated troubled countries. Prior to this reversal, the excess of market value over book value for the Bank's LDC portfolio had amounted to approximately $600 million. Concurrently, the Bank added $300 million to domestic provisions for loan losses, to address weakness in the domestic loan portfolio, particularly in respect of Olympia & York.

As a result, domestic operations recorded a net loss of $35 million this quarter compared to net income of $127 million in the second quarter of 1991. Before the $300 million addition to loan loss provisions, domestic net income would have been $139 million, up 10% from a year ago.

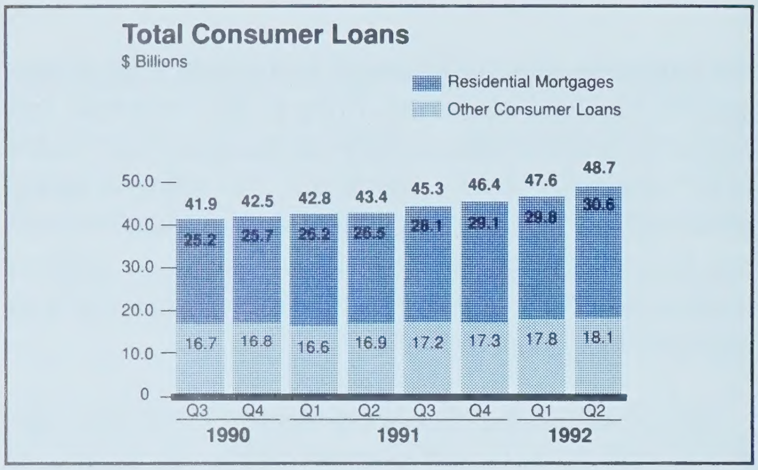
In contrast, net income from international operations totalled $247 million, an increase of $144 million or 140% from a year ago due to the above-mentioned reversal of the country risk provision. Excluding this reversal, international net income would have been $73 million, down $30 million or 29% due to the impact of lower loan volumes and reduced fee income this quarter, combined with higher loan losses and operating expenses.

Balance sheet review

Total assets at April 30, 1992 were $136.6 billion, an increase of $4.7 billion or 4% from a year ago and $2.2 billion or 2% from the previous quarter. Of these increases, about $1.1 billion and $400 million, respectively, stemmed from a higher translated value of foreign currency-denominated assets due to a weaker Canadian dollar.

Compared to last quarter, deposits with other banks were up $1.7 billion or 23%. Loans to businesses and governments and bankers' acceptances declined $900 million or 2% in total. Offsetting that reduction was a $260 million or 1% increase in consumer loans and an $850 million or 3% rise in residential mortgages, stemming from lower interest rates, relatively affordable home prices and government-provided incentives for first-time home buyers.

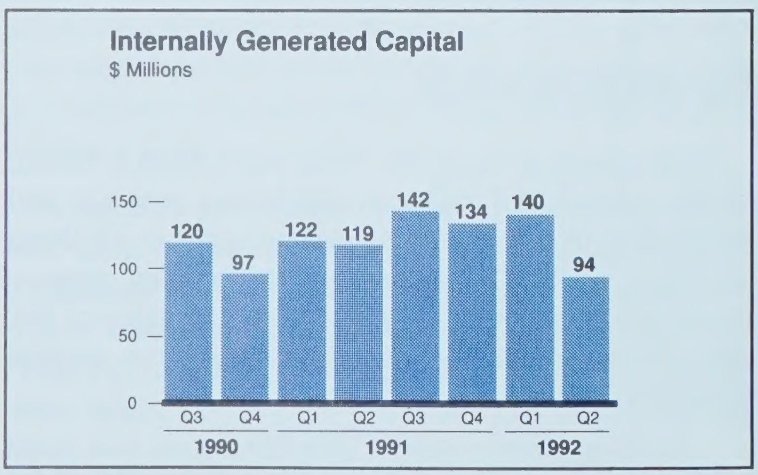
FINANCIAL REVIEW (continued)



Total deposits were up $1.0 billion or 1% from January 31, 1992, with deposits by individuals up $1.2 billion or 2%, and those by banks, businesses and governments down $200 million in total.

Capital

At April 30, 1992, total capital stood at $11.1 billion, up $135 million from last quarter. Common shareholders' equity, totalling $6.4 billion, was $138 million higher due to $94 million of internally generated capital and $44 million issued through the Shareholder Dividend and Share Purchase Plan.



Preferred share and debenture balances were basically unchanged. Although an outstanding $25 million 9% debenture due February 15, 1992 matured, this reduction was largely offset by a $17 million increase in debenture balances stemming from foreign exchange translation adjustments.

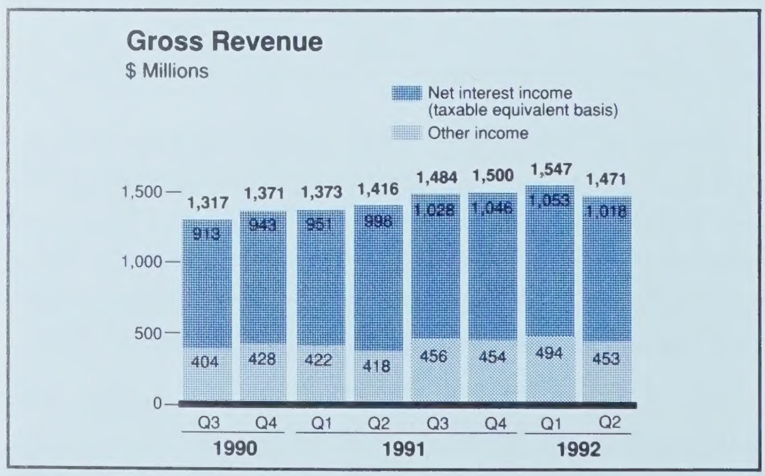
The Bank's Tier I and Total capital ratios were 6.3% and 9.5% respectively, up from 6.2% and 9.4% at January 31, 1992. Under the U.S. definition, which is more liberal than in Canada, Tier I and Total capital ratios would be 6.8% and 10.3% respectively.

Net interest income

Taxable equivalent net interest income was $1,018 million or 3.08% of average assets, compared to $998 million or 3.12% a year ago.

Domestic net interest income totalled $849 million, up $36 million or 4% from the second quarter of 1991 due to an increase in residential mortgage lending as well as wider spreads on the mortgage business due to a decline in interest rates. The domestic net interest margin, however, declined to 3.19% from 3.25% a year ago, due in part to lower trading profits at RBC Dominion Securities.

International net interest income was $169 million, down $16 million or 9% from a year ago due to lower assets and reduced interest from LDCs. Overall, the Bank recorded $40 million of interest from LDCs this quarter versus $45 million a year ago. The international net interest margin was 2.61%, down from 2.68% in the second quarter of last year.



Other income

Other income totalled $453 million, an increase of $35 million or 8% from last year's second quarter. Capital market fees were up $31 million. Of this increase, $5 million stemmed from the rapidly-expanding mutual fund business and most of the

remaining $26 million related to RBC Dominion Securities, which benefited from greater activity in the equities markets this quarter.

Non-interest expenses

Non-interest expenses were $958 million, virtually unchanged from last quarter but up $74 million or 8% from a year ago. Three-quarters of the $74 million increase took place in retail operations, where the number of banking machines and branches increased by 269 and 14 respectively from last year's second quarter.

Staff costs were up $45 million or 9% from a year ago, reflecting annual merit and pension and other benefit increases this quarter, as well as higher staff costs at RBC Dominion Securities, where compensation fluctuates quarterly with the level of revenue generated. Excluding RBC Dominion Securities, staff costs were up 7% from last year.

Premises and equipment costs were $20 million or 12% higher, reflecting a greater number of branches, banking machines and computers than a year ago. Other expenses were up $8 million or 4% from the second quarter of last year mainly due to higher business taxes.

Credit quality review

As mentioned earlier, in the second quarter Royal Bank reversed $300 million of its country risk provision and concurrently increased domestic loan loss provisions by the same amount. This move was prompted by several important developments.

First, the excess of the market value over book value of the Bank's LDC portfolio had been rising steadily — from about $100 million at the end of fiscal 1990 to $400 million at the end of 1991 and then to over $600 million by April 30, 1992. This increase in market value surplus reflects investors' growing confidence in the ability of major LDC countries to service their debt on a timely basis. Adding to this confidence was the Brady-type debt agreement in principle reached between Argentina and its bank advisory committee in the second quarter, and the expectation of a similar agreement for Brazil in the coming months.

Also, Mexico has been fully servicing its debt for several years and has met the requirements for soundness specified by the Office of the Superintendent of Financial Institutions (OSFI) some time ago. More recently, the OSFI has indicated its intention to remove Mexico from the basket of 45 designated troubled countries by July of this year.

In light of these factors, the Bank chose to reverse $300 million of its country risk provision this quarter. Even after this reversal, the Bank's LDC portfolio has a substantial $300 million market value surplus. Also, the Bank's remaining country risk provision, totalling $1.6 billion, represents 68% of the $2.3 billion LDC exposure, excluding Mexico, down only slightly from last quarter's reported 69% reserve ratio. Net LDC exposure, exclusive of Mexico, amounted to 12% of common shareholders' equity at April 30, versus 16% reported at January 31.

This quarter, the Bank also classified $510 million or approximately two-thirds of its $780 million of outstanding loans to Olympia & York as non-performing. Given the uncertainty with regard to losses on this and certain other domestic accounts, the Bank added $300 million to domestic loan loss provisions simultaneously with the country risk provision reversal discussed above. This $300 million will be applied to specific accounts over the balance of fiscal 1992.

Loan losses

As a result of the steps outlined above, this quarter's provision for loan losses was $185 million, comprising the addition of $485 million of specific provisions, and the $300 million LDC loan loss reversal. This compares to a provision for loan losses, consisting entirely of specific provisions, of $155 million a year ago and $185 million last quarter.

For the full year, the Bank continues to expect loan losses of $740 million. These would consist of $1,040 million of specific provisions and the $300 million reversal of the country risk provision. In fiscal 1991, loan losses of $605 million had comprised $705 million of specific provisions and a $100 million reversal of the country risk provision.

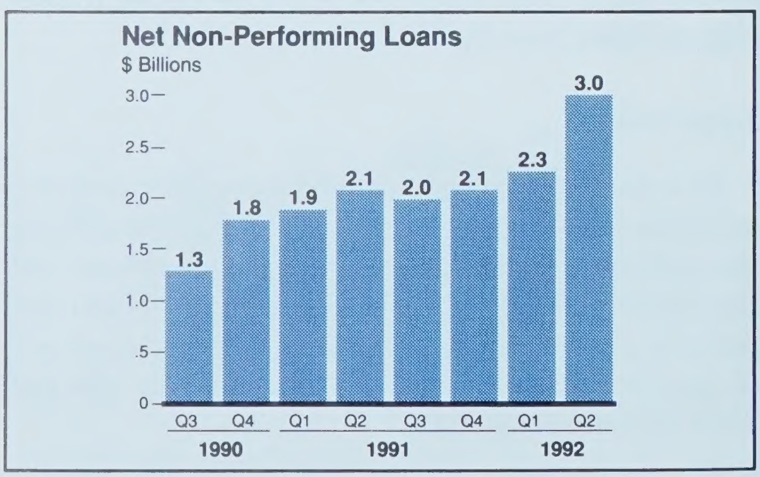
International specific provisions are expected to total $75 million this year, up $32 million from 1991, with most of the increase occurring in the United States and Europe.

Domestically, specific provisions are estimated to amount to $965 million, an increase of $303 million from last year, with most of the increase concentrated in the business loan portfolio. Loan loss estimates now amount to $618 million for corporate loans, $101 million for independent business loans and $22 million for agriculture lending, resulting in total domestic business loan losses of $741 million, up $278 million from 1991.

On the personal loans side, losses are estimated at $215 million for consumer instalment, credit card and other personal loans, and $9 million for residential mortgages, resulting in total domestic consumer loan losses of $224 million, an increase of $25 million from last year.

Non-performing loans

Total net non-performing loans, consisting of net non-accrual loans and renegotiated reduced-rate loans, were $2,979 million at April 30, 1992, up $680 million from January 31. As a percentage of total loans, net non-performing loans amounted to 3.0% compared to 2.3% a quarter ago.



Whereas renegotiated reduced-rate loans declined $11 million from last quarter to $77 million, net non-accrual loans were up $691 million to $2,902 million.

Domestic net non-accrual loans increased $431 million during the quarter to $2,372 million. Net non-accrual corporate loans were up $432 million, largely reflecting the previously-mentioned classification of a number of loans to Olympia & York as non-performing. Net non-accrual independent business and agriculture loans were down $10 million and $7 million respectively, while net non-accrual consumer instalment and other personal loans were up $10 million and net non-accrual residential mortgages rose $6 million.

International net non-accrual loans increased $260 million during the quarter to $530 million. The $300 million reversal of the country risk provision caused net non-accrual LDC loans to rise to $215 million from nil last quarter. The remaining $45 million increase was concentrated in two accounts — one in the United States and the other in Europe.

The Bank's total net non-performing commercial real estate loans were $723 million at April 30, up from $575 million last quarter. This quarter's $723 million comprised $613 million in Canada, $76 million in the United States and $34 million in other countries, compared to $489 million, $53 million and $33 million respectively a quarter ago.

Net non-performing HLT loans amounted to $23 million versus $26 million at January 31, 1992.

Summary

Considering the persistent weakness in the Canadian economy, Royal Bank's performance has held up reasonably well this year. Year-to-date net income is up 1% from the first six months of 1991. Six-month return on assets of .70% and return on equity of 13.1%, although below the Bank's long-term goals of .90% and 16% respectively, compare favourably to the average for the industry, both domestically and internationally.

The availability of $300 million of excess LDC provisions insulated the Bank's overall earnings from additional losses on domestic loans in the commercial real estate and other sectors.

The Bank does not expect a reduction in the level of non-performing loans this year, and believes the improvement in 1993 will be contingent upon an improvement in the overall domestic economy.

Royal Bank's capital position remains strong, with total regulatory capital of $11.0 billion and with Tier I and Total capital ratios of 6.3% and 9.5%, both well above requirements.

STATEMENT OF INCOME

UNAUDITED (in thousands of dollars)

	FOR THE THREE MONTHS ENDED			FOR THE SIX MONTHS ENDED	
	April 30 1992	January 31 1992	April 30 1991	**April 30 1992**	April 30 1991
Interest income					
Loans	**$2,244,102**	$2,366,049	$2,641,361	**$4,610,151**	$5,526,258
Lease financing	**28,290**	29,619	31,012	**57,909**	63,127
Securities	**208,553**	243,393	228,689	**451,946**	452,456
Deposits with banks	**90,371**	116,886	171,157	**207,257**	353,022
	2,571,316	2,755,947	3,072,219	**5,327,263**	6,394,863
Interest expense					
Deposits	**1,490,126**	1,620,682	2,013,353	**3,110,808**	4,325,879
Subordinated debentures	**64,189**	68,094	67,184	**132,283**	130,844
Other	**15,660**	29,418	14,605	**45,078**	29,513
	1,569,975	1,718,194	2,095,142	**3,288,169**	4,486,236
Net interest income	**1,001,341**	1,037,753	977,077	**2,039,094**	1,908,627
Provision for loan losses	**185,000**	185,000	155,000	**370,000**	295,000
	816,341	852,753	822,077	**1,669,094**	1,613,627
Other income					
Deposit and payment service charges	**162,456**	161,858	146,117	**324,314**	295,295
Capital market fees	**100,415**	97,267	69,781	**197,682**	117,750
Foreign exchange revenue	**65,063**	70,723	64,420	**135,786**	137,784
Card service revenues	**47,218**	54,848	41,527	**102,066**	93,850
Other	**77,888**	109,129	96,068	**187,017**	195,656
	453,040	493,825	417,913	**946,865**	840,335
	1,269,381	1,346,578	1,239,990	**2,615,959**	2,453,962
Non-interest expenses					
Salaries	**489,708**	495,196	452,213	**984,904**	903,919
Pension and other staff benefits	**68,158**	61,871	60,163	**130,029**	113,515
Premises and equipment	**188,600**	191,776	168,219	**380,376**	328,952
Other	**211,393**	205,025	203,129	**416,418**	401,784
	957,859	953,868	883,724	**1,911,727**	1,748,170
Net income before income taxes	**311,522**	392,710	356,266	**704,232**	705,792
Income taxes	**95,000**	130,000	120,000	**225,000**	235,000
Net income before minority interest	**216,522**	262,710	236,266	**479,232**	470,792
Minority interest in subsidiaries	**4,201**	6,896	6,284	**11,097**	8,815
Net income	**$ 212,321**	$ 255,814	$ 229,982	**$ 468,135**	$ 461,977
Earnings per share	**$0.59**	$0.73	$0.69	**$1.32**	$1.39

STATEMENT OF ASSETS AND LIABILITIES

UNAUDITED (in thousands of dollars)

	April 30 1992	January 31 1992	April 30 1991
ASSETS			
Cash and deposits with other banks	**$ 10,[illegible]41,327**	$ 8,532,834	$ 10,069,816
Securities	**15,[illegible]98,435**	15,143,865	11,970,101
Loans			
Residential mortgages	**30,[illegible]34,287**	29,788,787	26,511,375
Consumer instalment, credit card and other personal loans	**18,[illegible]43,640**	17,778,219	16,918,253
Business and government loans	**50,[illegible]12,404**	52,336,905	51,925,607
	99,[illegible]90,331	99,903,911	95,355,235
Customers' liability under acceptances	**6,[illegible]66,528**	6,042,351	9,778,317
Other assets	**5,[illegible]33,974**	4,791,322	4,732,672
	$136,[illegible]30,595	$134,414,283	$131,906,141
LIABILITIES			
Deposits			
Individuals	**$ 66,[illegible]44,129**	$ 65,471,360	$ 64,078,211
Businesses and governments	**29,[illegible]95,405**	29,955,136	28,386,488
Banks	**13,[illegible]00,834**	12,606,804	12,031,660
	109,[illegible]40,368	108,033,300	104,496,359
Acceptances	**6,[illegible]66,528**	6,042,351	9,778,317
Other liabilities	**9,[illegible]35,408**	9,384,841	7,896,640
Subordinated debentures	**3,[illegible]35,881**	3,094,355	2,860,131
Shareholders' equity			
Preferred shares	**1,579,351**	1,574,371	1,142,052
Common shares	**2,813,873**	2,770,397	2,634,448
Retained earnings	**3,509,186**	3,514,668	3,098,194
	8,002,410	7,859,436	6,874,694
	$136,630,595	$134,414,283	$131,906,141

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

UNAUDITED (in thousands of dollars)

	FOR THE SIX MONTHS ENDED APRIL 30	
	1992	1991
CAPITAL STOCK		
Balance at beginning of period	$4,386,716	$3,596,089
Issue of common shares for cash and on conversion of debentures	87,536	184,126
Preferred shares redeemed and purchased for cancellation	(101,608)	(2,334)
Translation adjustment on shares issued in foreign currency	20,580	(1,381)
Balance at end of period	$4,393,224	$3,776,500
RETAINED EARNINGS		
Balance at beginning of period	$3,374,899	$2,857,333
Net income	468,135	461,977
Dividends — preferred	(61,889)	(46,084)
— common	(179,260)	(174,819)
Gain on preferred shares purchased for cancellation	—	341
Unrealized foreign currency translation gains and losses, net of hedging activities and related income taxes	7,301	(554)
Balance at end of period	$3,609,186	$3,098,194
TOTAL SHAREHOLDERS' EQUITY	$8,002,410	$6,874,694
Comprised of:		
Preferred shares	$1,579,351	$1,142,052
Common shareholders' equity	6,423,059	5,732,642
Total	$8,002,410	$6,874,694

QUARTERLY STATISTICS

	Q2 1992	Q1 1992	Q[illegible] 19[illegible]1	Q3 1991	Q2 1991	Q1 1991	Q4 1990	Q3 1990
HIGHLIGHTS OF EARNINGS								
(as a % of average assets; taxable equivalent basis)								
Domestic								
Net interest income	**3.19%**	3.27%	[illegible]25%	3.28%	3.25%	3.16%	3.16%	3.22%
Provision for loan losses	**(1.74)**	(.65)	[illegible]52)	(.95)	(.58)	(.52)	(.63)	(.44)
Other income	**1.40**	1.45	[illegible]37	1.41	1.29	1.29	1.38	1.35
Non-interest expenses	**(3.12)**	(3.06)	([illegible]02)	(3.07)	(3.05)	(2.92)	(3.03)	(2.93)
Income taxes & minority interest	**.14**	(.42)	[illegible]44)	(.24)	(.40)	(.38)	(.40)	(.51)
Return on assets	**(.13)%**	.59%	.64%	.43%	.51%	.63%	.48%	.69%
Average assets ($ billions)	**$108.1**	$107.0	$1[illegible].4	$103.5	$102.7	$100.6	$99.5	$97.6
International								
Net interest income	**2.61%**	2.50%	[illegible]91%	2.54%	2.68%	2.12%	2.26%	1.83%
Provision for loan losses	**4.30**	(.14)	[illegible]28)	1.36	(.13)	(.11)	.27	.14
Other income	**1.26**	1.51	[illegible]44	1.30	1.39	1.33	1.22	1.09
Non-interest expenses	**(2.00)**	(1.89)	([illegible]04)	(1.81)	(1.74)	(1.76)	(1.81)	(1.84)
Income taxes & minority interest	**(2.35)**	(.58)	[illegible]64)	(1.20)	(.70)	(.55)	(.67)	(.32)
Return on assets	**3.82%**	1.40%	[illegible].39%	2.19%	1.50%	1.03%	1.27%	.90%
Average assets ($ billions)	**$26.3**	$27.6	$[illegible].9	$26.9	$28.3	$28.2	$26.4	$26.3
Total Bank								
Net interest income	**3.08%**	3.11%	[illegible].18%	3.13%	3.12%	2.93%	2.97%	2.92%
Provision for loan losses	**(.56)**	(.55)	[illegible]47)	(.47)	(.49)	(.43)	(.44)	(.32)
Other income	**1.37**	1.46	[illegible]38	1.38	1.31	1.30	1.35	1.30
Non-interest expenses	**(2.90)**	(2.82)	([illegible]82)	(2.81)	(2.77)	(2.66)	(2.77)	(2.69)
Income taxes & minority interest	**(.35)**	(.44)	[illegible]48)	(.43)	(.45)	(.43)	(.46)	(.47)
Return on assets	**.64%**	.76%	[illegible]79%	.80%	.72%	.71%	.65%	.74%
Average assets ($ billions)	**$134.4**	$134.6	$1[illegible]0.3	$130.4	$131.0	$128.8	$125.9	$123.9
BALANCE SHEET								
(at quarter end, $ millions)								
Cash resources and securities	**$ 25,440**	$ 23,677	$ 22,[illegible]56	$ 20,215	$ 22,040	$ 21,750	$ 18,212	$ 19,007
Loans	**99,390**	99,904	98,344	96,945	95,355	95,076	92,694	90,418
Bankers' acceptances	**6,767**	6,042	7,210	8,434	9,778	9,170	10,369	9,949
Other assets	**5,034**	4,791	4,542	4,625	4,733	4,760	4,663	4,594
Total assets	**$136,631**	$134,414	$132,352	$130,219	$131,906	$130,756	$125,938	$123,968
Deposits	**$109,040**	$108,033	$105,022	$103,381	$104,496	$104,373	$ 99,168	$ 98,571
Other liabilities & acceptances	**16,503**	15,428	16,492	16,368	17,675	17,044	18,017	16,989
Subordinated debentures	**3,086**	3,094	3,076	3,105	2,860	2,639	2,299	2,088
Preferred shares	**1,579**	1,574	1,661	1,440	1,142	1,144	1,146	1,145
Common shareholders' equity	**6,423**	6,285	6,101	5,925	5,733	5,556	5,308	5,175
Total liabilities	**$136,631**	$134,414	$132,352	$130,219	$131,906	$130,756	$125,938	$123,968
Common shareholders' equity / assets	**4.7%**	4.7%	4.6%	4.6%	4.3%	4.2%	4.2%	4.2%

QUARTERLY STATISTICS

	Q2 1992	Q1 1992	Q4 1991	Q3 1991	Q2 1991	Q1 1991	Q4 1990	Q3 1990
COMMON SHARE INFORMATION								
Shares outstanding (thousands)								
End of period	**309,980**	308,158	306,460	304,837	302,767	300,060	293,267	291,553
Average (basic)	**309,467**	307,734	306,051	304,201	301,823	295,155	292,785	291,075
Average (fully diluted)	**309,467**	307,734	306,051	304,206	302,338	300,437	298,473	296,775
Earnings per share								
Basic	**$0.59**	$0.73	$0.75	$0.77	$0.69	$0.71	$0.62	$0.71
Fully diluted	**0.59**	0.73	0.75	0.77	0.69	0.70	0.61	0.70
Dividends per share	**$0.29**	$0.29	$0.29	$0.29	$0.29	$0.29	$0.29	$0.29
Common share price — High	**$27.50**	$29.00	$27.50	$26.50	$27.13	$24.50	$24.25	$24.63
— Low	**22.50**	25.25	25.63	23.63	23.38	20.50	19.75	20.38
— Close	**23.75**	26.50	27.00	25.75	26.13	24.50	20.75	24.13
Book value per share	**$20.72**	$20.40	$19.91	$19.44	$18.93	$18.52	$18.10	$17.75
Return on equity	**11.6%**	14.5%	15.2%	16.1%	15.1%	15.3%	13.8%	16.1%
B.I.S. CAPITAL ($ millions)								
Tier I capital	**$7,253**	$7,122	$6,938	$6,569	$6,081	$5,947	$5,712	$5,591
Tier II capital	**3,703**	3,687	3,748	3,783	3,540	3,304	2,813	2,614
Total capital	**$10,956**	$10,809	$10,686	$10,352	$9,621	$9,251	$8,525	$8,205
Risk-adjusted assets and off-balance sheet items	**$115,108**	$114,752	$113,975	$113,971	$115,443	$114,856	$115,035	$110,857
Tier I capital to risk-adjusted assets	**6.3%**	6.2%	6.1%	5.8%	5.2%	5.2%	5.0%	5.0%
Tier II capital to risk-adjusted assets	**3.2%**	3.2%	3.3%	3.3%	3.1%	2.9%	2.4%	2.4%
Total capital to risk-adjusted assets	**9.5%**	9.4%	9.4%	9.1%	8.3%	8.1%	7.4%	7.4%
OTHER INFORMATION								
Employees (full-time equivalent)	**49,505**	50,035	50,547	50,375	49,777	50,026	50,106	49,277
Automated banking machines	**3,779**	3,717	3,651	3,586	3,503	3,374	3,142	2,877
Service delivery units								
Domestic	**1,657**	1,651	1,645	1,640	1,636	1,621	1,617	1,599
International*	**103**	102	102	105	105	106	48	48

* Starting Q1/91, includes (in addition to branches) representative offices, agencies and subsidiaries.

	Investment Date	From dividends reinvested	From cash contributions
Prices of shares issued under the Bank's Shareholder Dividend and Share Purchase Plan	**February 24**	**$23.7975**	**$25.0500**
	March 24	—	**$25.1375**
	April 24	—	**$23.8125**

SHAREHOLDER INFORMATION

Corporate Headquarters

Street Address:	1 Place Ville Marie Montreal, Quebec Canada
Telephone:	(514) 874-2110
Fax:	(514) 874-7197
Telex:	055-61086
Mailing Address:	Royal Bank of Canada P.O. Box 6001 Montreal, Quebec Canada H3C 3A9

Stock Exchange Listings *(Symbol: RY)*

Common shares listed on:
Canada: Montreal, Toronto, Vancouver, Winnipeg and Alberta Stock Exchanges.

Japan: Tokyo Stock Exchange

Switzerland: Basle, Geneva and Zurich Stock Exchanges

U.K.: London Stock Exchange

All Preferred shares, except Series C and D, are listed on the Toronto and Montreal Stock Exchanges. Preferred shares Series C and D are listed on the Alberta Stock Exchange.

Transfer Agent and Registrar

Main Agent:	Montreal Trust Company of Canada
Mailing Address	P.O. Box 890 Station "B" Montreal, Quebec Canada H3B 3K5
Telephone:	(514) 982-7000
Fax:	(514) 982-7580
Telex:	055-61286

Dividend Record Dates

Usually the 24th of January, April, July and October, except for First Preferred Shares Series E, F and G. The dividend record date for First Preferred Shares Series E is the last day of each month, and for the First Preferred Shares Series F and G is during the second week of January, April, July and October.

Dividend Payment Dates

Usually the 24th of February, May, August and November, except for First Preferred Series E, F and G. The dividend payment date for First Preferred Shares Series E is the 12th day of each month, and for the First Preferred Shares Series F and G is the last business day of January, April, July and October.

Institutional Investor, Broker, Security Analyst Contact

Institutional investors, brokers, security analysts and others desiring financial information about the Bank should contact the Manager, Investor and Shareholder Relations, at the Bank's corporate headquarters.

General Information

Information concerning the Royal Bank and its activities in Canada and abroad may be obtained from the Public Affairs Department, at the Bank's corporate headquarters.

AR40

ROYAL BANK OF CANADA

MINUTES OF THE 123RD
ANNUAL MEETING OF COMMON SHAREHOLDERS

THURSDAY, JANUARY 23, 1992

THE MARCH OF FOLLY

AN ADDRESS BY
ALLAN R. TAYLOR
CHAIRMAN & CHIEF EXECUTIVE OFFICER
ROYAL BANK OF CANADA

Canada stands in grave danger of joining what the eminent American historian, the late Barbara Tuchman, has called the March of Folly – a path that has led many other nations to ruin or decline.

Dr. Tuchman's thesis is that nations march toward folly when they adopt policies contrary to their self-interest. A better alternative is available, but they shun it. The bad policy is the result of collective folly rather than the work of one person.

Dr. Tuchman notes that very early in humankind's long march of folly the Trojans hauled the wooden horse inside their walls, even though they were warned it was a trick by the Greeks.

There are many examples in history of collective folly. Even in our time, Winston Churchill was widely dismissed and ridiculed for insisting that democracy was under threat.

Folly is also evident in the way the economic destiny of nations is mismanaged.

Argentina began the century as the 9th richest country on earth, but is now number 49. It tolerated political and economic turmoil that was obviously against the long-term interests of the people.

The Great Cultural Revolution under Mao set China back for a generation. Millions of people, the intellectuals, were treated like criminals.

And, of course, the legacy of unrelenting Marxist folly and perversity will haunt Eastern Europe for years to come. The Soviet empire, which was held together only by the glue of fear and terror, is in ruins. The people are now seeking what we already have: freedom, security, economic well-being – and membership in the club of free nations.

Nations can make mistakes, and pay heavily for them. Now even Canada seems to be embarking on our own march of folly. Too many Canadians are indifferent to a possible breakup of the country. We hear too many predictions that separation would be relatively smooth and inexpensive – a divorce between friends. Not only is our country in danger of breaking up, but too few Canadians have really begun to discuss the real issues. What a waste. What a waste of precious time.

So this is the third successive annual meeting at which I share my thoughts with you about the compelling need for unity. Many Canadians still do not understand that national unity and economic prosperity are cut from the same cloth. Some do not want to hear about the cost of disunity. Some are deterred from discussing it because of the risk of being labelled "fear mongers". Discussing the costs of disunity with care is not fear mongering; it is facing reality and this, above all, is what Canadians must do now – face reality.

Marches of folly are made possible by the existence of dangerous delusions. It is the delusion that a national breakup would involve only minimal costs that risks sending Canada down this road of irreversible folly.

A recent poll shows that fully 56 per cent of the people outside Quebec believe that, if Quebec separates, the economy of what remains of Canada will be unchanged, or even stronger. I am deeply disturbed and saddened by this. Like other polls, it reveals dangerous delusions about what would happen to the Canadian economy if Quebec leaves.

Who, I wonder, are these 56 per cent who think it would be safe and easy for them after Quebec left? Where do these ideas come from? How much time have these Canadians spent thinking about what would really happen?

Six months ago, I hoped today's remarks would not be necessary. By this time, I expected, a vision of renewed federation would have begun to take shape for Canadians.

Instead, partisan floundering has led too many Canadians to turn off their minds, and to close their hearts. Too many have unthinkingly accepted the agendas of groups whose policies, if implemented, would mean the ultimate destruction of Canada.

Most lethal of all is the assumption that the departure of Quebec would resolve our difficulties: that it would solve the challenges facing Canada; that it would solve the problems of Quebec; that it would solve the problems of the West; that it would redress the wrongs done to our First People.

This is only one of the dangerous delusions that beckon Canadians down the march of historic folly.

What Canadians should be asking themselves first – and very explicitly – is whether disunity is the answer to the challenges we face.

Do we really need to blow Canada apart to meet Quebec's historic concerns? Quebec is a unique cultural island of 6-million French-speaking people in an ocean of 270-million people working and living in English. Quebec is a distinct society. Do we really need to destroy Canada to recognize and protect that reality? I say no.

Do we really need to blow Canada apart to understand and address a deep alienation in the West, where many people believe that our national institutions are dominated by a deaf and unfeeling Eastern majority? Do we really need to destroy Canada to recognize and correct that concern? I say no.

Do we really need to blow Canada apart to meet the deep-felt concerns of people in Atlantic Canada? Do we have to destroy Canada to solve their very real structural economic problems? I say no.

Do we really need to blow Canada apart to give the First Nations the powers to participate directly in determining their own destiny within Canada – rights they have been denied for too long? Again, I say no.

Do we really need to blow Canada apart to address the vital need for greater harmonization of federal and provincial policies and cutting the wasteful duplication of costs?

Do we really need to blow Canada apart to make us understand Canada is already part of a much larger international economic union and so must have a strong domestic economic union to survive? Again, I say no.

That separation would be relatively easy and without cost is not just a dangerous delusion; it is a real-world impossibility.

It is my estimation that, the costs of a breakup would be huge and long-term, and paid by everyone in Canada – here in Quebec, and in every other province and territory. No-one would escape lightly; no-one would fare well.

Now constitution making is for citizens, not banks. We do not have, or pretend to have, any special expertise or knowledge in this area. But this bank is almost as old as Canada. Through more than a century of working in Canada, we have gained some knowledge of how our economic system works – and what it needs to work. Our business is Canada – all of Canada.

It requires no constitutional expertise to see that many assumptions in this debate are simplistic nonsense.

They assume, for example, the continuation of a common currency, a common market, a common international trade policy, and a stabilizing fiscal structure. This is not a credible scenario even in a spirit of harmony and selflessness.

They suppose that all decisions would be made purely on rational economic grounds. Even if that were possible, the costs would be enormous. But history warns us that emotion would not be kept out of the picture.

We are told that, once the process of destroying Canada was over, the two smaller, much less viable new countries could easily renegotiate the very economic structures that assured prosperity in the first place.

This, of course, would be done quickly and generously; or so some would tell us. Persuading the United States and others to fall meekly in line with these needs would be easy – or so we are asked to believe. They say it would be easy to replace or renegotiate the automobile agreement, the U.S.-Canada Free Trade Agreement, the proposed North American free trade agreement, the defence production-sharing agreement, and the St. Lawrence Seaway treaty, plus participation in the NORAD and NATO agreements and in the General Agreement on Tariffs and Trade. Nothing to it!

Let us realize that this comforting view is not just simplistic nonsense, but nonsense of a kind that destroys nations. It is not original but is very much worth repeating: If we ignore history's lessons, we repeat its mistakes. History tells us that the breakup of a country is costly, painful and long-term; it leaves very deep economic scars.

In a dismal parade of folly, generations of people have lost – or are still losing – peace, stability and prosperity.

The peaceful secession of Norway from Sweden in 1905 is sometimes cited. But in their 90 years together, these two were never economically integrated. Each had kept its own currency and retained its own parliament. So this is not a case that is at all relevant to our circumstances. Yet, even there, the economic costs were high. The final break was negotiated under the threat of force. Their currency convertibility arrangement did not ultimately survive.

So the first giant step toward folly is to believe that the breakup of Canada could be achieved without much pain.

A second step toward folly is to ignore or underestimate the uncertainty this debate engenders and perpetuates. It is already damaging us. Internationally, we compete with other countries for investment and borrowing. Uncertainty makes us less competitive for these funds. I know this only too well; I travel the world to meet business leaders who invest billions of dollars. I have met them recently in New York, Tokyo, Basel, London, Zurich and Stockholm. They all ask the same questions: What's going on in Canada? Is it safe to invest the savings of our clients in Canada? I have been assuring them that I still have confidence we will see this crisis through and remain united. What would you tell them?

Meanwhile, at home, uncertainty causes businesses, governments and individuals to put off investment decisions. This slows economic recovery. It affects the livelihoods of all Canadians.

That's costly enough. But the permanent impact of a breakup would be far greater, beginning with the currency.

Political separation would see the emergence of two weaker regional currencies from the rubble of one of the world's strongest currencies. And this third and terrible step toward folly would provoke a host of other economic problems.

Some say a separated Quebec and the rest of Canada could share the Canadian dollar, with Quebec having no formal influence over the policies of the Bank of Canada.

Under such an arrangement, a separate Quebec, being the smaller partner, would actually have much less input than it does today in policies that underpin the currency.

A currency is underpinned by factors beyond monetary policy and control of the central bank. It is also supported by fiscal policies, and policies on foreign trade and investment, and policies regulating financial institutions, and policies on the payments system.

No self-respecting state could for long tolerate another state unilaterally controlling these key policies. Common sense tells us this form of neo-colonialism is not what any sovereign country would want or could long tolerate.

But, you might ask: Surely in the proposed European Monetary Union there is a model for a truncated Canada and an independent Quebec sharing a currency?

Ironically, an effective European monetary union may prove feasible only when the European Economic Community has roughly the same political integration as now exists in the Canadian confederation. It calls for what we already have: a single central bank; and the integration of tax systems and national economic policies. I ask you: Why should we abandon what the Europeans seek?

So two currencies would emerge. A Quebec currency would obviously be new. A Canadian dollar, even with the same name, would also be a new currency. This new Canadian dollar would be underpinned by a very different and greatly weakened national economy. Neither currency would be the reliable and internationally respected medium of exchange we now enjoy.

Again, everyone would lose. Canada and Quebec would have less ability to finance growth, development, jobs, environmental initiatives, and social needs. Is that what we really want?

Significantly, pension funds – with their heavy dependence on Canadian securities – would be among the hardest hit. Once again, those least able to control their own circumstances would have to pay the highest costs. But, of course, there are many who believe that breaking Canada apart would be painless. Does that make sense to you? It makes no sense to me.

A fourth step toward folly – and it is seldom recognized – would be to tolerate losing the powers of the federal government to balance the ups and downs in the economy. Through programs like equalization, unemployment insurance and income taxes, a national fiscal policy directly supports spending, savings, and investment decisions across the country. It also helps to smooth out economic cycles in the regions.

In 1986, Alberta went through a sharp recession when the price of oil collapsed, while most other provinces had healthy growth.

Drought and low international grain prices in recent years severely hurt the agricultural economies of Manitoba and Saskatchewan while the rest of Canada was strong.

In 1990 and 1991, Ontario and Quebec had deeper recessions than most other provinces.

Canada's fiscal structure reduces the severity of regional economic swings like these by transferring funds from strong provinces to those that are relatively weak.

Clearly, the whole is worth more than the sum of the parts. Without the combined strength of the country as a whole, the economically weak provinces would suffer a dramatic decline in government services and an increase in taxes.

These are some of the dangerous delusions that seem to be taking us on this march to folly. Other challenges face us. The first is ending a cruel recession. The second is the need to become more productive to compete in the global market. While we have every reason to be proud of what we have achieved, a new economic order is already here. We must adjust to it.

Disunity only compounds the pain and the length of this recession. I can think of no single development that would do more to improve the economy than the acceptance of a viable plan to keep Canadians together.

Disunity also weakens and delays our capacity and our resolve to upgrade our goods and services to compete in a world that knows few economic borders.

This is why the first item on the national agenda is to renew the federation as a new partnership between people in all regions and their governments.

Canada in 1992 simply cannot be immune from the thrust of what is happening beyond our borders. The alliance of liberal democracies, having outlived the Communist regimes, is alive to new ideas. And no idea is more powerful than the one that drives

the nations of Europe ever closer. They have buried the deep wounds of a millennium of conflict. They are yielding more sovereignty to create the world's biggest common market.

The Europeans know what we have forgotten: that in unity there is strength, and in separation there is folly.

Prosperous countries like Switzerland know what we have yet to learn: that cultural diversity can be an enormous source of strength, including economic well-being.

In this anniversary year we should be celebrating our achievements. Canada, which has so much promise, is 125 years old. Montreal, a living example of how people of different cultures can live together in peace, is 350 years old.

Canada's accomplishments are widely recognized, at least by others.

I point to the report of the United Nations Development Program. It rates countries in terms of economic prosperity, longevity, living standards, gender equality, racial equality, distribution of income and human freedom.

In 1991, Canada ranked second from the top in the whole world on this global scale of the quality of life. Only Japan was higher on this list of 160 countries.

That is what is threatened by separation.

That is what we stand to lose by separation.

Are we perfect on all these: prosperity, longevity, living standards, gender equality, racial equality, distribution of income and freedom for our people? Are we perfect on any? By no means.

But we are so high on all that observers abroad can only shake their heads and ask: Don't Canadians realize what they are risking ... what they could lose? If this Canada isn't worth saving, what country is?

Well, here's one Canadian, a son of Saskatchewan, who cares passionately about keeping Canada together from British Columbia to Newfoundland – and Quebec is part of my Canada.

Are we really going to join the march of folly?

I look forward to meeting you again, here in Montreal, Quebec, Canada, next year... and in many years to come.

A REPORT OF THE YEAR'S OPERATIONS

BY
JOHN E. CLEGHORN
PRESIDENT & CHIEF OPERATING OFFICER
ROYAL BANK OF CANADA

Good morning ladies and gentlemen,

Royal Bank's performance in 1991 is more than a function of our large volumes, our ability to generate capital, or our position as Canada's largest bank, fifth largest on the continent.

Our results also reflect market share growth, and geographic and business diversity, in both traditional and non-traditional banking activities.

For example, our international operations and investment banking, through RBC Dominion Securities, generated substantially better returns last year, while our core domestic retail and corporate banking businesses were hit harder by the recession.

We're very different today than we were ten years ago. Our attitudes have changed, our organization has changed, our business has changed. We're shifting from being a traditional bank to a broad-based financial services enterprise.

Within Canada, market share growth and results from the Atlantic and Western provinces helped cushion the impact of the severe economic downturn in Ontario and Quebec.

Our progress in key business segments is, in part, the payoff for a massive investment in new technology and our distribution network – two billion dollars over the past five years.

Here in Quebec, one of our most important markets, we employ over 9,000 people. We've invested $250 million in the province over the past three years alone.

Our size, our franchise, our diversity, our capital base, and our technology have helped deliver the strong results you saw a moment ago. They also produce stability.

You only have to look at the state of the financial services industry south of the border to realize how well Canadians have been served by the banking sector.

In the U.S. lower earnings, credit rating downgrades, dividend cuts and government bailouts are the order of the day. The industry there is in nothing less than a crisis.

Yet our overall strength is but a starting point. We've got to build a clear competitive advantage through improved quality and productivity, and continuously create value for our customers, our shareholders, and our 58,000 people.

We've been focusing on quality improvement for several years and it's beginning to pay dividends.

Improving quality also means making our services as accessible and convenient as possible.

Ten years ago, Royal Bank had 475 banking machines. Today, our total approaches 4,000 – the largest banking machine network in North America.

And now consumer convenience is about to take another leap forward, with the debit card.

Banking machines and debit cards are changing the way people do much of their personal banking. Corporate Banking is also radically different. The impact of technology, globalization, and changing business patterns have broadened the expectations and needs of our corporate clients.

One example of how our corporate banking relationships have evolved is Tilley Endurables, creators of the famous Tilley Hat. Through Royal Bank's Cash Command system, Tilley's management team has minute-by-minute access to the financial information they need.

We've also sought to develop new and growing markets by strategically growing our branch network. For example, in December, we opened a full service branch on the Six Nations of the Grand River Reserve at Ohsweken, Ontario. It's the first-ever branch designed specifically for a First Nation community.

We've expanded our network by focusing on access, convenience, and specialized products. We also need to achieve the highest efficiencies, and have committed ourselves to an intense quality management process.

We've recognized that while quality management must be led from the top, it can't be superimposed. We've decentralized a significant amount of authority to the people who are closest to our customers.

We believe quality is more than just a bank concern. It's vital to the future success of all Canadian business ... to our country's ability to compete in a global marketplace. So, we're trying to spread the quality message to other Canadians.

We sponsored Quality Month in Canada, published quality information and produced a video featuring Canadian companies that have succeeded through quality.

Quality embraces every aspect of an organization.

We were the first Canadian Bank to complete a joint Employment Equity review with the Canadian Human Rights Commission. In June we signed a three-year agreement with specific goals to increase the proportion of women and visible minority executives, and to hire and promote more native people.

Royal Bank staff have always been committed to delivering quality, not only in their jobs, but to their communities. Our people are among the largest contributors of volunteer time and money across the country.

We share their commitment by being one of Canada's largest corporate donors. Last year, our donations of one per cent of average profits produced over $12 million for worthwhile causes across Canada.

Now, a few words about another important activity – our Royal Bank Award, presented annually to a Canadian who's made a significant contribution to human welfare and the common good.

The 1991 recipient was DR Jean Vanier, founder of the International Federation of L'Arche, which has created 95 communities in 22 countries, caring for people with developmental disabilities.

The recipient of the award is selected from a group of nominees. I urge you, our shareholders and special guests, to nominate any Canadian you believe worthy of our $100,000 Royal Bank Award.

So, where does Royal Bank go from here? What do the next ten years hold in store?

Well, for a start, we will continue to look carefully for new businesses and new markets. Our success in the mutual fund business is one example of what can be achieved when we focus our resources in new areas that offer our customers convenience and value.

In the last year, we increased the number of our mutual funds from four to seven. As a result, we led the entire mutual fund industry in sales from June to year-end. Since the end of 1990, our mutual fund assets have almost tripled from 1.1 billion dollars to over 3 billion dollars.

We will also, of course, continue to pursue quality management efforts.

A consumer survey, completed just before Christmas, gives a pretty good indication of what we need to do.

Overall, our personal clients are very satisfied with the level and quality of service from Royal Bank.

But we need to fix problems faster and better than we do now. People are still spending too much time in line-ups. We need more training so our staff can make banking a better experience for our customers.

In Corporate Banking, our most recent survey revealed that 38% of our business clients felt quality of service improved over the past year, up from the 29% who thought so a year ago.

Whether it's Corporate Banking or Retail Banking, better quality and productivity is more than steady improvement of what we've always done. All of our processes are under the microscope. Measuring continuing improvement is key.

That's not to say that what we're doing today is inadequate. But it does reflect the emerging perspective throughout Royal Bank that we must continuously seek to better everything we do.

We're determined to improve the quality of our service, while improving the ratio of expenses to revenues. And the process is happening everywhere. Our people have embraced quality and productivity improvement world-wide – from Newfoundland to B.C.; from Asia to the Caribbean.

We expect the results to accelerate over time, given the evidence we have of our staff's enthusiasm.

For example, the volume of awards for staff suggestions related to quality service virtually tripled last year, and the absolute number of staff suggestions more than doubled, from 5,849 to 12,206.

Staff suggestion programs are one part of the answer. But even more important is the potential we'll realize when we ask ourselves, every day, if there's a better way, and then do something about it.

In 1992, our performance will be under pressure because of the fragile economic recovery. The financial difficulties experienced by both individuals and businesses will likely result in weak revenue growth for the financial services industry, with continuing high levels of non-performing loans and loan losses.

In this environment, our emphasis will remain on improving quality, lowering expense growth, and thereby improving productivity. These are not simply defensive strategies for tough times. They are ongoing competitive advantages that are reshaping our capabilities to perform successfully and create value.

Still, true quality isn't something that happens all at once. We're on a journey where change is unrelenting, where competition is fierce, and where continuous improvement must be as normal as waking up every day.

What we see as high quality service today will be tomorrow's minimum standard. Our customers expect more. Our staff expect more. And you, our shareholders, expect us to do better for you as well.

And so, we're constantly setting our sights higher. That's a Royal Bank tradition … a tradition worth preserving … a tradition we're proud to maintain.

Thank you.

Royal Bank of Canada
Minutes of the 123rd
Annual Meeting of Common Shareholders

The 123rd Annual Meeting of Royal Bank of Canada was held in Le Grand Salon of The Queen Elizabeth hotel in Montreal, Quebec on Thursday, January 23, 1992 at 10:30 a.m.

The Chairman opened the meeting by welcoming those shareholders from out of town to Montreal, and proceeded to say:

"We have the pleasure this year of hosting our Annual Meeting on the occasion of Montreal's 350th anniversary. Later this morning we will pay tribute to this special birthday. We also celebrate today and throughout the year Canada's 125th anniversary of Confederation."

The Chairman advised that the languages of the meeting were Canada's two official languages, English and French, with simultaneous translation available for any person wishing to make use of the facility. In addition sign language interpreters were made available for the hard of hearing.

The Chairman declared that as Notice of the Annual Meeting of Common Shareholders had been duly given and a quorum was present, the meeting was properly convened.

In accordance with the By-laws and as designated by the directors, the Chairman of the Board, Mr. Allan R. Taylor, acted as Chairman of the meeting and the Secretary of the Bank, Ms. Jane E. Lawson, acted as Secretary of the meeting. The Chairman appointed Messrs. Alfred J. Gareau and Willard J. Johnston, officers of Montreal Trust Company of Canada, to act as Scrutineers and then explained the voting procedure to be followed.

The Chairman stated that a copy of the minutes of the last Annual Meeting of Common Shareholders of the Bank held on January 24, 1991 had been sent to each shareholder as required by the Bank Act and that unless there was any discussion, they would be taken as read and adopted. Accordingly, the minutes of the last Annual Meeting of Common Shareholders were adopted.

The Chairman referred to the Annual Report as at October 31, 1991, and said:

"The Annual Report examines the Bank's operations and financial performance in two parts. The first is the "Operational Review" which discusses the Bank's progress in its major businesses during 1991, the second is the "Financial Review", which presents the Bank's audited Financial Statements for the year ended October 31, 1991. It also contains a comprehensive analysis of its financial results and of the principal activities of the Bank."

The Chairman called upon the Secretary to read the Auditors' Report. The Auditors' Report was then read by the Secretary (this report appears in the Annual Report 1991, Part Two, "Financial Review", on page 22).

The Chairman then said:

"I should like, at this time, to place on record the appointment of four non-officer directors since our last Meeting of Shareholders. The non-officer directors are: Mr. Victor L. Young of St. John's, Newfoundland. Mr. Young is Chairman & Chief Executive Officer of Fishery Products International Limited. Mr. Young was appointed to the Board on April 2, 1991. The Honourable Paule Gauthier of Quebec City. Mrs. Gauthier is a partner in the firm of Stein, Monast, Pratte & Marseille. Mrs. Gauthier was appointed to the Board on October 1, 1991. Mr. Ronald W. Osborne of Toronto, Ontario, is President & Chief Executive Officer of Maclean Hunter Limited. He was appointed to the Board on October 1, 1991. Finally Mr. Jacques Bougie of Outremont, Quebec, is President & Chief Operating Officer of Alcan Aluminium Limited. Mr. Bougie was appointed on November 5, 1991. Would our new directors please stand and be recognized.

It is with regret that I must advise you that the following directors who were elected at our last Annual Meeting will not be standing for re-election today. Mr. Claude Pratte of Quebec City, who joined the Board on May 9, 1967, resigned in May 1991 for personal reasons. Mr. Pratte, during his 24-year tenure, served on various committees of the Board, including a term as Chairman of the Nominating Committee, a term on the Loan Policy Committee and most recently on the Personnel and Compensation Committee.

Also not standing for re-election today are Messrs. George H. Blumenauer, Jock K. Finlayson, Charles I. Rathgeb, Ian A. Barclay and Rowland C. Frazee, all of whom have reached the age limitation for eligibility on our Board. Mr. George H. Blumenauer of Oakville, Ontario, Chairman of the Board of Otis Canada, Inc., joined the Board on December 2, 1969. During his 22-year tenure, Mr. Blumenauer served on various committees of the Board including terms on the Nominating and Audit Committees and most recently on the Loan Policy Committee. Mr. Jock K. Finlayson of Montreal, Quebec, Chairman of Royal Insurance Company of Canada, joined the Bank in British Columbia in 1939 and capped his 44-year career with the Bank by becoming President in 1983. He has served on the Board for 21 years, having first joined it on April 7, 1970. Since then, he has served

on the Nominating, Public Policy and International Strategic Issues Committees. Mr. Charles I. Rathgeb of North York, Ontario, who joined the Board on December 1, 1970 retires after 21 years. Mr. Rathgeb served on the Public Policy, the Nominating and the International Strategic Issues Committees. Mr. Ian A. Barclay of Vancouver, British Columbia, joined the Board on April 3, 1973. During his 18-year tenure, Mr. Barclay served on various committees of the Board, including a term on the Public Policy Committee, a four-year term as Chairman of the Audit Committee and most recently as a member of the Loan Policy Committee.

Finally, Mr. Rowland C. Frazee, my predecessor as Chairman & Chief Executive Officer, completes a distinguished 52-year association with Royal Bank. He joined the Bank in October 1939 in St. Stephen, New Brunswick, and after military service and obtaining a Bachelor of Commerce degree, rejoined the Bank in Fredericton in 1948. His appointment to the Board came on February 28, 1973 when he was Executive Vice-President & Chief General Manager. He served as Chairman & Chief Executive Officer from 1980 until his retirement from the Bank in 1986. A consummate team leader and team player who brought sound strategic planning to the Bank, Rowland Frazee leaves an indelible personal mark on the Bank he served so well.

To all of these retiring directors, for their contribution and devotion to the interests of the Bank during the years in which they served on the Board, I would like to express our sincere thanks for their friendship, their advice and their contribution to the success of Royal Bank.

Since the last Annual Meeting, the Bank has suffered a grievous loss in the death of our former Chairman and President, Mr. Earle McLaughlin. Mr. McLaughlin presided over the Bank's affairs during a period of extraordinary social, political and economic change in Canada and the world. He was recognized internationally as an outstanding banker and a great Canadian. Mr. McLaughlin died on October 30, 1991 in Montreal."

The Chairman then delivered an address entitled "The March of Folly." [See page 1 of these proceedings.]

The financial results were presented to the meeting by means of a video presentation and immediately upon the conclusion of the video, Mr. John E. Cleghorn, President & Chief Operating Officer, addressed the meeting. In delivering the address, the President & Chief Operating Officer was supported by an audio-visual presentation. [See page 5 of these proceedings.]

The Chairman then declared the meeting open for the nomination of directors. Mr. J. Lorne Braithwaite nominated the following persons to be directors of the Bank:

Sir James Ball, M.A., Ph.D., Jacques Bougie, Robert W. Campbell, Robert M. Chipman, John E. Cleghorn, Ronald L. Cliff, C.M., C.A., George A. Cohon, C.M., Pierre Des Marais II, Mitzi S. Dobrin, C.M., John R. Evans, C.C., M.D., John T. Ferguson, The Hon. Paule Gauthier, P.C., O.C., Q.C., Arden R. Haynes, Charles H. Knight, Walter F. Light, O.C., O.Ont., The Hon. E. Peter Lougheed, P.C., C.C., Q.C., Clifford S. Malone, Alexander B. Marshall, J. Pierre Maurer, G. Wallace F. McCain, Dawn R. McKeag, J.William E. Mingo, Q.C., J. Edward Newall, Ronald W. Osborne, F.C.A., Ralph A. Pfeiffer, Jr., Neil F. Phillips, Q.C., Herbert C. Pinder, Kenneth C. Rowe, F.C.I.S., Guy Saint-Pierre, Robert T. Stewart, Allan R. Taylor, John A. Tory, Q.C., William P. Wilder, Victor L. Young.

Mr. Gilles G. Cloutier, O.C., seconded the nominations.

The Chairman said:

"Each of the persons nominated has filed a statement that he or she is prepared to serve as a director and qualifies as a director under the provisions of the Bank Act. As a group, these nominees meet the requirements for the composition of a board of directors of a bank under the Bank Act."

The Chairman then asked if there were any further nominations. Since there were no further nominations, the Chairman entertained a motion that the nominations be closed.

It was moved by Mr. Edwin K. Weir, Q.C., and seconded by Mr. Ronald K. Gamey:

"THAT the nominations be closed and that each of the persons nominated be elected a director of the Bank."

The Chairman stated that the motion was open for discussion.

There being no further discussion, the Chairman put the motion to a vote. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the 34 individuals nominated, as proposed, duly elected directors of the Bank.

The Chairman then entertained a motion for the appointment of Auditors.

It was moved by Mr. J. Pierre Maurer and seconded by Mr. Robert M. Chipman:

"THAT Deloitte & Touche and Peat Marwick Thorne be appointed Auditors of the Bank until the next Annual Meeting of Common Shareholders."

The Chairman stated that the motion was open for discussion. There being no discussion, the Chairman put the motion to a vote. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

The Chairman then entertained a motion to fix the Auditors' remuneration.

It was moved by Mrs. Mitzi S. Dobrin, C.M., and seconded by Mr. John A. Tory, Q.C.:

"THAT the remuneration of the Auditors covering their appointment until the next Annual Meeting of Common Shareholders be fixed at a sum not to exceed $920,000 to be divided between them."

The Chairman stated that the motion was open for discussion. There being no discussion, the Chairman put the motion to a vote. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

The Chairman then stated:

"In 1907, the Bank moved its corporate headquarters from Halifax to Montreal, which is now home to over seven thousand Head Office and Quebec District employees. Today, we would like to honour the 350th anniversary of the founding of Montreal, and commemorate Royal Bank's presence here for most of the 20th century.

First, we have chosen a birthday present for the City. 1992 is a year in which all Montrealers should have access to celebrations taking place throughout the City. So, to assist in the transportation of Montreal's disabled citizens during and after this anniversary year, we are purchasing four specially equipped buses to donate to the Montreal Urban Community Transit Corporation. We have also commissioned a 350th anniversary video, in honour of the City of Montreal. Today's Annual Meeting marks the premiere showing of this special presentation."

The video called "Montreal, Force of the Future" was then presented.

The Chairman then stated:

"Before we come to the "Other Business" part of our Agenda, I would like to recognize our officers and staff who have joined us here today. As many of you know, it has been our custom to invite a number of our employees and their spouses to the Annual Meeting. They come from branches, processing centres, administrative offices, including head office and subsidiaries in Royal Bank locations across Canada and around the world – from Holyrood, Newfoundland to Vancouver, British Columbia, and from the United Kingdom, the United States, Asia and the Caribbean. Ladies and gentlemen, it is these men and women and those they represent who deserve the credit for the Bank's success. They represent some 58,000 of their fellow employees, and I would ask them to stand and be recognized as a group."

Under "Other Business" a shareholder asked a question as to the security of the Bank's assets in Quebec. The same shareholder asked another question regarding the operations of the Bank and more particularly the use of signs only in French in one of the branches of the Bank in Montreal.

The Chairman assured the shareholder that the management of the Bank will always ensure that the assets and funds of its shareholders and customers remain safe. He then referred to his speech and his continued belief in the unity of Canada.

In response to the second question, the President & Chief Operating Officer assured the shareholder that the Bank will continue to serve its Quebec customers in the official language of their choice.

There being no further business to transact, the Chairman declared the meeting terminated.

J E Lawson

JANE E. LAWSON
Vice-President & Secretary

Allan Taylor

ALLAN R. TAYLOR
Chairman & Chief Executive Officer

ROYAL BANK
OF CANADA

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